NRC·CNRC

NATIONAL RESEARCH COUNCIL CANADA

ARCHIVED - Quarterly Financial Report - For the quarter ended September 30, 2013 (unaudited)

This PDF file has been archived on the Web.

Archived Content

Information identified as archived on the Web is for reference, research or recordkeeping purposes. It has not been altered or updated after the date of archiving. Web pages that are archived on the Web are not subject to the Government of Canada Web Standards. As per the Communications Policy of the Government of Canada, you can request alternate formats by contacting us at webcontent@nrc-cnrc.gc.ca.

National Research Council Canada

Statement outlining results, risks and significant changes in operations, personnel and programs

Table of Contents

1. Introduction 2
1.1 NRC Mandate 2
1.2 Basis of Presentation 3
2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) results 3
2.1 Authorities and Expenditures 4
2.2 Significant Changes to Authorities 4
2.3 Significant Changes to Budgetary Expenditures 5
2.3.1 Variances in Year-to-date Expenditures 5
3. Risks and Uncertainties 6
3.1 NRC Corporate Risks 6
4. Significant changes in relation to operations, personnel and programs 7
4.1 Common Services Transformation Project 7
4.2 Programs Update 7
5. Budgets 2012 and 2013 7
5.1 Budget 2012 7
5.2 Budget 2013 8
6. Statement of Authorities 9
7. Departmental budgetary expenditures by Standard Object 10

1. Introduction

The Government of Canada uses financial information to support decision making, for policy development, for service delivery and for historical reference. These financial statements have been prepared to respond to these requirements. These statements should be read in conjunction with the Main Estimates and Supplementary Estimates as well as Canada's Economic Action Plan 2012 (Budget 2012). They have been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. Although these statements have not been subject to an external audit or review, NRC attests that they are an accurate and true reflection of the financial position for the period ending September 30, 2013.

This Departmental Quarterly Financial Report (QFR) reflects the results of the current fiscal period in relation to the Main Estimates and Supplementary Estimates (A). The QFR should be read in conjunction with the Main Estimates (no applicable Supplementary Estimates (A) for 2013-14) as well as with Canada's Economic Action Plan 2012 (Budget 2012).

1.1 NRC Mandate

The National Research Council Canada (NRC) exists under the *National Research Council Act* and is a Departmental corporation named in Schedule II of the Financial Administration Act. The mission of NRC is to work with clients and partners to provide innovation support, strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

Under the *National Research Council Act*, NRC is responsible for:

- Undertaking, assisting or promoting scientific and industrial research in fields of importance to Canada;
- Providing vital scientific and technological services to the research and industrial communities;
- Investigating standards and methods of measurement;
- Working on the standardization and certification of scientific and technical apparatus and instruments and materials used or usable by Canadian industry;
- Operating and administering any astronomical observatories established or maintained by the Government of Canada;
- Establishing, operating and maintaining a national science library; and
- Publishing and selling or otherwise distributing such scientific and technical information as the Council deems necessary.

Further details on NRC's legislative framework, authority, mandate and program activities can be found in Part II of the Main Estimates and the Report on Plans and Priorities.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the NRC's spending authorities granted by Parliament and those used by the NRC consistent with the Main Estimates and Supplementary Estimates for 2012-13. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use for spending authorities.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-13, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-14, the changes to departmental authorities were reflected in the 2013-14 Main Estimates tabled in Parliament.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes (pursuant to paragraph 5(1)(e) of the *National Research Council Act*, the NRC has authority to expend revenues it has received through the conduct of its operations).

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The NRC uses the full accrual method of accounting to prepare and present its annual departmental financial statements which are part of the Departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

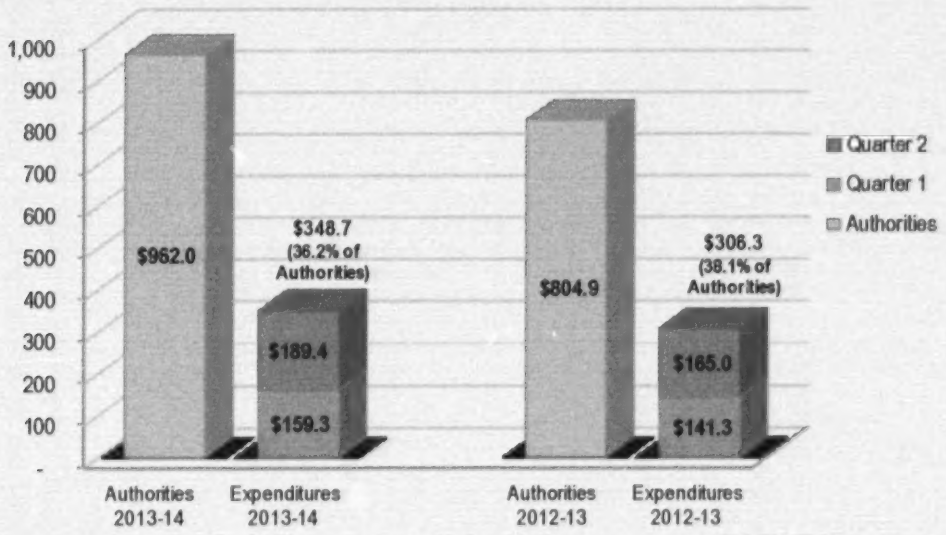
2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) results

This section highlights the items that contributed most significantly to the changes in budgetary authorities for the current fiscal year and to the actual expenditures for the quarter that ended on September 30, 2013, compared with the previous fiscal year. This section should be read in conjunction with NRC's Statement of Authorities and Departmental Budgetary Expenditures by Standard Object table.

2.1 Authorities and Expenditures

The following graph provides a comparison of the budgetary authorities and expenditures as of September 30, 2013, and those as of September 30, 2012.

Comparison of Budgetary Authorities and Expenditures as of September 30, 2013 and September 30, 2012
(in millions of dollars)



As shown in the graph above, NRC's expenditures totalled $189.4M during the second quarter of 2013–14 which represents an increase of $24.4M over the second quarter of 2012-13. Higher expenditures are mainly attributable to the increase of $32.9M in contributions, $2.5M in statutory revenue expenditures and a decrease of $10.4M in operational expenditures. Refer to 2.3 Significant Changes to Budgetary Expenditures for additional details.

2.2 Significant Changes to Authorities

For the period ending September 30, 2013, the authorities provided to the NRC include both the *Main Estimates* and Revenue Carry Forward. Please note that for the current year, the NRC has no *Supplementary Estimates (A)*.

As reflected in the *Statement of Authorities*, NRC has seen a total decrease in authorities of $0.5M when compared with the June 30, 2013 Quarterly Financial Report.

The following table summarizes the variances:

For the year ending March 31, 2014 - As of September 30, 2013
Significant Changes to Authorities *(unaudited)*
(in millions of dollars)

	Vote 60 Operating	Vote 65 Capital	Vote 70 Grants & Contributions	Statutory Revenues	Contributions to EBP	Total
Authorities – Total available for use for the year ending March 31, 2014 - As of June 30, 2013						962.5
Less :						
Budget 2013 - Planned Reduction in Travel Costs	(0.5)					(0.5)
Total increase in authorities in comparison to prior year	**(0.5)**	**-**	**-**	**-**	**-**	**(0.5)**
Authorities – Total available for use for the year ending March 31, 2014 - As of September 30, 2013						962.0

The quarterly decrease in Authorities is solely attributable to the planned reduction in travel costs as announced in Budget 2013.

2.3 Significant Changes to Budgetary Expenditures

This section should be read in conjunction with NRC's Departmental Budgetary Expenditures by Standard Object table as well as the Departmental Budgetary Expenditures by Statement of Authorities.

2.3.1 Variances in Year-to-date Expenditures

As of September 30 2013, year-to-date expenditures were $348.7M, representing an increase of $42.4M (13.9%) in comparison to the 2012-13 expenditures of the same period. The increase is mostly attributable to increased transfer payments offset by a decrease in net operating expenditures.

- Grants & Contributions (G&C) expenditures increased by $48.7M, compared with the previous year. Of this amount, $34.9M is attributable to increased contributions at NRC-IRAP resulting from the permanent increase received in Budget 2012, $4.0M increase in Digital Technology Adoption Pilot Program contributions and $10.9M is related to the timing of contribution payments for TRIUMF.

- Net operating expenditures decreased by $10.3M, compared with the previous fiscal year. This change is mainly attributable to a $3.6M decrease in utilities, materials & supplies, $1.8M in transportation & communications and $1.4M in other subsidies and payments.

- Revenue expenditures are $3.1M higher compared to the previous fiscal year. This difference is due to higher collection of statutory revenues. This is explained by a $2.7M increase in revenues from intellectual property, $2.0M in G&C revenues, $2.0M in research services and $1.1M in

rental revenues offset by a decrease of $5.4M in technical services.

- Capital expenditures increased by $1.0M over the same period of 2012-13. The increase is mainly attributable to an increase in machinery and equipment as well as laboratory equipment. Last year, the transformation of NRC and implementation of a new financial model caused delays in the flow of capital expenditures.

3. Risks and Uncertainties

3.1 NRC Corporate Risks

In the second quarter of 2013-14, change management continued to be the most significant corporate risk for NRC. While new processes have been introduced as part of NRC's transformation to become more industrially focused and responsive to client needs, there is ongoing attention to ensure that the new structures and processes are functioning effectively and are integrated. Common Services continue to undergo re-structuring in order to be optimized within NRC's new business model.

Progress has been made against operational priorities, resulting in a reduced level of risk in certain areas:

- **Management Capacity:** Most management positions have been successfully filled, managers' needs assessments have been completed and relevant training in critical areas continue to be delivered (e.g., financial management, client relationship building, business plan and program development) to help ensure that managers are prepared and equipped to move NRC towards its new vision.
- **Program Design Capability:** Program design capabilities are in place and most NRC programs have been approved and are in implementation phase. The majority of Portfolio Business Advisors are also in place to support NRC's market development strategies. Efforts are now focused on strengthening risk management capabilities and building client relationships.
- **Values & Ethics:** As referenced in the June 30 2013 report, NRC's Code of Conduct has been articulated and communicated to all employees. Centralization of contract management and robust due diligence by IRAP are key to avoiding business-related ethical issues.

Progress has also been made in managing other corporate risk areas, for example, NRC's Strategic Emergency Management Plan was approved by NRC's Senior Executive Committee in the second quarter to address risks associated with incidents & crisis. Implementation is expected in the coming quarters.

4. Significant changes in relation to operations, personnel and programs

4.1 Common Services Transformation Project

In June 2013, NRC began work on a Common Services Transformation (CST) Business case, as part of NRC's efforts to optimize corporate resources and internal client services within its new business model. The scope of the Business Case will initially cover activities of four Corporate Branches to provide integrated end-to-end services across the branches in line with leading practices. NRC's common services transformation has been ongoing since 2010 with past efforts focused on consolidating resources into corporate groups. The four corporate branches being reviewed include:

- Administrative Services and Property Management (ASPM)
- Information Technology & Security Services (ITSS)
- Finance Branch (FB)
- Human Resources Branch (HRB)

4.2 Programs Update

Programs are the cornerstones of NRC's Research & Development activities. Due to its importance, program development, implementation and review at NRC is a structured process, with discrete phases and stage-gates. To date, over three-quarters of NRC's programs have been approved and are being implemented. The remainder of the programs are to be approved by the end of the fiscal year.

5. Budgets 2012 and 2013

This section provides an overview of the savings measures announced in Budget 2012 and Budget 2013 which have been implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

5.1 Budget 2012

Budget 2012 identified savings of $15.2M per year starting in 2013-14 for NRC. These represent cost savings associated with sun-setting certain projects and programs. The remainder of NRC's cost savings were through administrative efficiencies and reductions in overheads.

Also contained in Economic Action Plan (EAP) 2012 was an initiative for supporting entrepreneurs and innovators. In 2012-13, NRC received a permanent annual increase which is being administered by NRC's Industrial Research Assistance Program (IRAP). NRC-IRAP received $91.4M in 2012-13 and will receive $110M annually starting in 2013-14.

5.2 Budget 2013

Although not yet included in the 2013-14 Authorities, on September 27th 2013, Treasury Board approved two sources of funding for NRC from EAP 2013; $121M over two years (ending 2014-15) to support NRC's transformation agenda and launch its programs; and $6.9M as part of the Canada Accelerator Incubator Program (CAIP) to expand services to entrepreneurs and provide them with the resources needed to gain a strategic advantage in a competitive international marketplace.

To further support the innovation needs of Canadian industry, EAP 2013 also committed $20M over three years to establish a new credit notes pilot program to be delivered through NRC-IRAP.

Approved by:

John R. McDougall, P.Eng.
President
National Research Council Canada
Ottawa
Date: November 27, 2013

Michel Piché, M.P.A., CMA, CIA
VP, Corporate Management
and Chief Financial Officer
National Research Council Canada
Ottawa
Date: November 27, 2013

National Research Council Canada

Quarterly Financial Report

For the quarter ended September 30, 2013

Statement of Authorities *(unaudited)*

	Fiscal Year 2013-2014 *(in thousands of dollars)*		
	Total available for use for the year ending March 31, 2014 *	Used during the quarter ended September 30, 2013	Year to date used at quarter-end
Vote 60 - Net Operating expenditures	331,367	97,146	190,181
Vote 65 - Capital expenditures	30,776	6,596	8,739
Vote 70 - Grants & contributions	275,109	63,903	107,088
Statutory revenue **	284,539	11,666	22,596
Statutory EBP	40,238	10,060	20,119
Total Budgetary authorities	**962,029**	**189,371**	**348,723**

	Fiscal Year 2012-2013 *(in thousands of dollars)*		
	Total available for use for the year ending March 31, 2013 ***	Used during the quarter ended September 30, 2012	Year to date used at quarter-end
Vote 60 - Net Operating expenditures	324,745	107,531	200,460
Vote 65 - Capital expenditures	41,892	7,183	7,717
Vote 70 - Grants & contributions	169,416	30,968	58,414
Statutory revenue **	228,367	9,175	19,458
Statutory EBP	40,514	10,128	20,257
Total Budgetary authorities	**804,933**	**164,985**	**306,306**

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

*** Includes Statutory Revenue available for use in future years pursuant to paragraph 5(1)(e) of the National Research Council Act.*

**** Includes only Authorities available for use and granted by Parliament at quarter end. Total available for use does not reflect measures announced in Budget 2013.*

National Research Council Canada

For the quarter ended September 30, 2013

Departmental budgetary expenditures by Standard Object

(unaudited)

	Fiscal Year 2013-2014 *(in thousands of dollars)*		
	Planned expenditures for the year ending March 31, 2014 *	Expended during the quarter ended September 30, 2013	Year to date used at quarter-end
Expenditures:			
Personnel	390,196	94,847	189,575
Transportation & communications	33,282	1,470	3,604
Information	5,056	202	473
Professional & special services	61,296	6,813	12,847
Rentals	12,412	417	1,440
Repair & maintenance	32,939	2,199	4,914
Utilities, materials & supplies	124,402	12,745	19,008
Acquisition of machinery & equipment	9,928	1,638	2,047
Transfer payments	275,109	63,903	107,088
Other subsidies & payments	17,409	5,137	7,727
Total net budgetary expenditures	**962,029**	**189,371**	**348,723**

	Fiscal Year 2012-2013 *(in thousands of dollars)*		
	Planned expenditures for the year ending March 31, 2013	Expended during the quarter ended September 30, 2012	Year to date used at quarter-end
Expenditures:			
Personnel	313,985	93,177	188,141
Transportation & communications	31,051	2,965	5,396
Information	9,397	238	796
Professional & special services	69,016	11,456	16,086
Rentals	6,604	1,196	1,974
Repair & maintenance	27,741	3,664	5,320
Utilities, materials & supplies	117,737	13,871	20,941
Acquisition of machinery & equipment	50,550	184	212
Transfer payments	169,416	30,967	58,414
Other subsidies & payments	9,435	7,266	9,026
Total net budgetary expenditures	**804,933**	**164,985**	**306,306**

** Planned expenditures do not reflect measures announced in Budget 2013.*